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UNIDO POLICIES

UNIDO programme for industrial rehabilitation and modernization

Submitted by the Director-General

Summary

Proposes, in response to Board decision IDB.9/Dec.2, a framework for placing UNIDO activities on rehabilitation and modernization on a programmatic basis within the context of the medium-term plan, 1992-1997.

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Introduction

1. The present report is in response to Board decision IDB.9/Dec.2 which requested the Director-General to submit to the policy-making organs of UNIDO, for their consideration, UNIDO's substantive programme on industrial rehabilitation in order to complete the programming exercise of the medium-term plan, 1992-1997, on its five priority areas (human resource development, development and transfer of technology, industrial rehabilitation, small- and medium-scale industries, and environment and energy). The mandate for the proposed rehabilitation programme also stems from United Nations General Assembly resolutions 45/196 and 46/146 on industrial development cooperation and the diversification and modernization of productive activities in developing countries.

I. BACKGROUND

2. In the 1990s, industrial rehabilitation and modernization - although more urgent in certain regions such as Africa - is a global requirement of deep concern to both Governments and the private sector of developing countries and those countries in transition. Whether due to war, famine, the failure of economic and political institutions, or mounting competitive pressures and/or the unprecedented challenges of transition from a command economy to a market-based one, the economic viability of many industrial enterprises is seriously jeopardized by their inability to respond to those pressures and challenges. This is due, among other things, to the lack of a conducive policy environment, lack of managerial and technical capabilities, and serious shortcomings in the supporting institutions and physical infrastructure. Individual enterprises often lack not only the financial and managerial resources but also the information and/or access to properly functioning financial markets to respond in an expeditious manner.

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3. The original investment project often was based on unrealistic assumptions of domestic demand growth, availability of local raw material export prospects and price and supply developments. In many instances, investments were made on the basis of project concepts that were technologically too complex to be sustained over the long term without significant foreign assistance. Insufficient support in the form of training, other forms of industrial human resource development and auxiliary inputs also tended to drastically affect productivity. And macroeconomic and industrial policies, including trade and pricing policies, distorted product markets and production conditions in many countries.

4. Furthermore, the prevailing balance-of-payments crises in many developing countries have meant that their industries, which are generally highly import dependent, have been hard hit by interruptions to supplies of raw materials, replacement parts, components and other essential imported inputs. This has led to significant underutilization of production capacities and a precipitous drop in enterprise performance. In addition, the globalization of production, the movement towards trading blocs, rapid technological advances and a widespread move towards deregulation, liberalization, decentralization and privatization has meant that many developing countries are being forced either to restructure their industries or face the prospects of divestiture or liquidation. Moreover, investment rates in developing countries have fallen sharply. For example, in a sample of 30 developing countries, average total investment increased from 18 per cent of GDP in the early 1970s to a peak of 23 per cent in the period 1978 to 1982, and then declined to 18.5 per cent of GDP from 1985 to 1987. 1/

5. Public investment levels, which still play a significant role in many developing countries, have also fallen significantly. The share of public investment as a percentage of GDP has declined from approximately 10 per cent in 1980 to 8.3 per cent in 1987. 2/ The economies in transition have also experienced a significant fall in public investment levels in recent years and the level of foreign direct investment (FDI) is not yet significant in the region. Although figures for FDI are far from certain - especially for Eastern Europe - in 1992, Malaysia attracted $3.85 billion in FDI from France, Japan and the United States of America, over two and a half times the level of FDI in Hungary, the recipient of almost half of all FDI to Eastern Europe excluding the former Soviet Union.

6. To kick-start economic growth many countries will need to raise the overall level of investment. To this end, a growing number of countries have initiated policies to increase the level of aggregate savings. But these measures will only begin to take effect in the medium to long term. In the interim period, industrial rehabilitation in the form of more efficient utilization of existing installed productive capacities and improved productivity would be the most economical means of restoring dynamism, competitiveness and profitability to the industrial sector and overall economic growth in many countries.

7. To be successful, industrial rehabilitation must be a dynamic, forward-looking concept. The concept should be broadened beyond merely thinking in terms of benefits to individual plants - rather, it should be interpreted as securing optimal use of existing capacities and resources, through upgrading and transformation, for future general industrial growth. Industrial rehabilitation encompasses the notion of a minimum critical mass or configuration of assets, be they physical, financial or human for efficient profitable production. 3/ For example, a ceramics factory needs as a minimum requirement: clay, a mould, a kiln, a delivery vehicle, plant buildings and skilled workers. If any one of these assets are damaged or unavailable for whatever reason, production is reduced or stopped. Under normal circumstances, maintenance and repair is scheduled and budgeted and down-times are thereby kept to a minimum, and the enterprise therefore has self-upkeep capability. What distinguishes an enterprise which is in need of rehabilitation from one which does not is that the former suffers a prolonged failure of its self-upkeep capability so that the minimum critical mass or configuration of assets is not maintained. This can occur for many reasons, among others, due to loss of markets, insufficient revenue - often a lack of foreign exchange - inappropriate policies, general political and economic uncertainties, or as a result of damages and losses due to war or natural disasters, especially earthquakes.

8. The concept of industrial rehabilitation should also encompass the possibility of plant closure either in entirety or in part. In such cases it is recognized that there are important social and political implications to be considered. The established interpretation of the concept of rehabilitation may block such actions because it restricts the view of decision makers to the existing industrial structure. A wider and more forward-looking regeneration concept will help all parties concerned to understand that closure may be a necessary part of an attempt to establish an industrial structure with better prospects for sustained competitiveness. Rehabilitation should thus avoid re-establishing previous conditions for inefficient production and instead establish a new basis for viable production and overall growth.

9. Industrial rehabilitation activities cover the entire range of technical, technological, managerial, marketing, financial and industrial human resource development and training issues as well as overall structural and policy issues at the branch, subsector, sector and macroeconomic levels. As the approach covers a wide range of issues, successful implementation requires the expeditious mobilization of financial resources

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1/ Pfefferman, G.P. and Madarassy, A., "Trends in private investment in thirty developing countries", International Finance Corporation Discussion Paper No. 6, Washington, D.C. 1989.

2/ Pfefferman and Madarassy, op. cit.

3/ Jaffey, M. and Tribe, M., Project Rehabilitation in Adverse Environments, Avebury Publishing Ltd., Avebury, 1992.

from domestic entities, both public and private, and from foreign multilateral, bilateral, commercial and financial bodies. Thus, although the relevant UNIDO subprogrammes focus on assistance to individual or groups of industrial enterprises, they also provide advisory services on policy and institutional reforms and the mobilization of financial and other resources for the rehabilitation and modernization process.

10. First and foremost, actual rehabilitation presupposes a detailed diagnosis of the enterprise(s) concerned and a cost-benefit analysis of eventual rehabilitation measures in the context of a consistent, coherent and phased rehabilitation programme. Secondly, industrial rehabilitation refers to the various technical, organizational and financial measures that need to be undertaken at the enterprise level to acquire or regain a self-upkeep capability to ensure a critical mass of assets and thereby enable the enterprise to survive as a viable entity in competitive markets. Industrial restructuring and the build-up of competitiveness calls for a dynamic development process within a country's economy, facilitating the entry as well as the exit of individual enterprises and creating conditions in which, if the situation so demands, ailing companies can be shut down, non-performing assets liquidated and resources freed for new investments. Thirdly, rehabilitation should be seen to encompass improvements in the economic policy and institutional environment of an enterprise or an entire industrial subsector as preconditions for successful enterprise-level restructuring. Thus an integral part of successful rehabilitation is the integration of macro-industrial policy actions with enterprise-level and institutional and other supporting measures. Of necessity, such actions and measures would touch upon industrial financing, building up efficient industrial services and, in general, strengthening the overall industrial competitiveness of a country's economy.

11. UNIDO has traditionally accorded high priority to industrial rehabilitation and modernization. Continuous emphasis over the years has been placed on developing a comprehensive integrated programme and approach which reflects the real needs and aspirations of developing countries. In this regard, the programme has addressed problems at the enterprise level within subsectoral, sectoral and macroeconomic contexts, mobilizing the involvement and joint implementation of many organizational units of UNIDO. Considerable attention has been devoted to the modernization of management structures, upgrading technology and facilitating technological absorption through appropriate management approaches and organizational schemes. Thus, many of UNIDO's large-scale projects have dealt with the upgrading and modernization of production and management capabilities. Attention has also focused on issues of plant performance and managerial improvement such as repair and maintenance and preventive maintenance schemes as well as on computer-aided management, information systems and accountancy training. Many UNIDO projects have stressed turn-around management and modernization with assistance in strategic diagnostics, turn-around workplans and the development of viable business plans. Increased involvement of local industrial consultancy services in rehabilitation activities is desirable to many developing countries and the UNIDO rehabilitation programme has emphasized the development of local skills, particularly the improvement of national consultancy capabilities.

12. In the framework of the Industrial Development Decade for Africa, a special emphasis in UNIDO's rehabilitation work has been given to the rehabilitation needs of the African manufacturing industry. Assistance has included a series of diagnostics surveys of selected African countries; enterprise audits to develop bankable rehabilitation plans; a variety of direct assistance measures; studies on the impact of the debt problem on African industry; and specific management and human resource development in such areas as economic and financial analysis and marketing. Given the importance of these subsectors, particular attention also has been paid to agro-industries and skins, leather and leather products.

13. Since 1990, the UNIDO rehabilitation programme has given increased emphasis to the commercialization of industry, direct assistance to the private sector, and the transfer of commercially dedicated management techniques such as design for manufacture, total quality control, manufacturing resource planning, group technology and value engineering. In addition, the rehabilitation programme has been refocused in light of recent global, political and economic changes which have led to the need for substantial assistance in restructuring and privatizing state-owned industry. There has also been emphasis on the rationalization of manufacturing operations, adoption of cleaner technologies and the development of commercially viable business plans to enable enterprises to successfully face the existing and emerging challenges of the transition to market-based competitive economies.

14. Recently, the programme has launched an innovative approach - exemplified by a successful major restructuring project in Poland funded by the United Kingdom of Great Britain and Northern Ireland Know-How Fund - in response to the current sweeping changes in the global economy. In this approach, UNIDO offers an integrated programme of assistance to: (a) address immediate restructuring issues and help enterprises remain operational in the short run; (b) develop viable business plans and upgrade managerial and technical capabilities to assist and implement rehabilitation/business plans; and (c) to attract joint venture partners.

II. DEVELOPMENT OBJECTIVE OF THE PROGRAMME

15. The development objective of the proposed programme is to enhance the economic and technical performance and viability of industrial enterprises, thereby increasing their competitive strength and regenerating industrial growth in the recipient countries.

III. PRIORITIES AND TARGET GROUPS OF THE PROGRAMME

16. The priorities of the programme and respective target groups are:

Priority	Target groups
(a) Strengthening national capabilities in order to identify, assess, formulate and implement programmes and policies that meet local rehabilitation and modernization requirements at the industrial enterprise and sectoral levels	Industry (public, private individual enterprises), legislative and planning organs in Governments of recipient countries, industry sector or subsectoral associations, training and research institutions, industrial services entities
(b) Support to countries in designing and implementing appropriate industrial policy measures at the enterprise, subsectoral and sectoral (national) levels and in drawing up appropriate financial, economic and technical packages for rehabilitating and modernizing their industries and industrial enterprises	As above
(c) Provision of coordinated international support to implement the rehabilitation of enterprises, drawing on engineering, design and other technical services (including areas as diverse as quality control, packaging and maintenance), management development, investment analyses, industrial human resource development, and negotiation and procurement services	As above
(d) Promotion of the mobilization of financial resources for industrial rehabilitation and modernization	In addition to all the above, development finance institutions in both developing and developed countries

17. The guiding principle governing the rehabilitation programme of UNIDO is the pursuance of an integrated, multidisciplinary approach - involving all three substantive major programmes in UNIDO: Industrial Operations, Programme and Project Development and Industrial Promotion, Consultations and Technology - in close cooperation with the local actors and other relevant international agencies such as the World Bank and the regional development banks.

IV. PROGRAMME OBJECTIVES, OUTPUTS AND ACTIVITIES

18. The proposed UNIDO rehabilitation programme addresses the above priorities (a) to (d) and its subprogrammes relate to the following:

Subprogramme I: Assistance to industrial enterprises in improving performance towards (re)attaining economic and technical viability (as in the Agro-Based, Chemical, Metallurgical, and Engineering Industries as well as Industrial Strategies and Policies, Institutional Infrastructure, and Industrial Management and Rehabilitation - all of which fall under the major programme, Industrial Operations).

Subprogramme II: Advisory services at the policy and institutional level in support of industrial rehabilitation and modernization (carried out mainly within the subprogramme of the major programme, Programme and Project Development: Global Issues and Policy Analysis, Regional and Country Studies, Industrial Statistics and Sectoral Surveys).

Subprogramme III: Promotion of direct investment and mobilization of resources for the industrial rehabilitation and modernization process (undertaken within the subprogrammes of all three major programmes such as Industrial Cooperation and Funds Mobilization; Industrial Investment; and Industrial Institutions and Services as well as Industrial Operations Support).

Subprogramme I: Assistance to industrial enterprises in improving performance towards (re)attaining economic and technical viability

I.1 Problem to be addressed

In many developing countries and countries with economies in transition, changes in external and internal economic conditions and emergent challenges to established industrial production structures have led to a drastically deteriorating performance of some industrial enterprises - in many cases, key enterprises. This has resulted in low capacity utilization and a growing risk of widespread financial collapse because of the linkages of key enterprises. In some instances, economic parameters and market developments as perceived at the investment stage have subsequently proved to be invalid; in other instances, drastic deregulation, disarmament or privatization programmes have forced industries to restructure completely or close down. Whereas some companies cannot be salvaged and have to be liquidated, many can be revitalized through the provision of appropriate assistance and investment resources. For example, in many instances rehabilitation efforts might focus on overhauling machinery and

other installations and reassessing production programmes, current capacities and technologies employed. In relatively small industrial enterprises where funds are scarce, a "repair-or-replace" exercise can be conducted for each machine or piece of equipment to determine exactly the financial outlay involved. A growing concern of many countries is the environmental pollution caused by ailing enterprises. Rehabilitation, the general subsector restructuring process, and pricing energy supplies at world market levels will often force enterprises to adopt environmentally cleaner technologies and processes. As has been UNIDO's experience in many cases, individual enterprises can do much by their own efforts towards rehabilitation. For example, in a food-processing enterprise in Zambia, UNIDO found that simply improving process flows and reorganization of management responsibilities - issues that could be undertaken by the enterprise itself - led to a 20 per cent increase in efficiency. In other cases, enterprises require policy and institutional support from Government, industry associations, including from international sources (IDB.11/2, paras. 5.124-5.134).

In many cases, enterprises need major injections of capital - especially working capital - technology transfers and technological know-how, managerial upgrading, training and other resources. These additional resources for rehabilitation are often sought from domestic and international sources. But whatever the source of these additional resources, they should be provided on an economic basis according to established market principles and not as a grant, in order not to distort market conditions and to ensure the proper commercial scrutiny of operations by the enterprise itself. In the ultimate analysis, through the revitalization and modernization of selected (key) industrial enterprises, industrial growth and employment can be generated and the dynamism of the industrial sector restored.

I.2 Objective

To improve the overall economic and technical performance of individual industrial enterprises through specific rehabilitation and modernization efforts and thus lay a solid basis for profitability, competitiveness and environmentally sustainable production.

I.3 Subprogramme focus

Oriented towards industrial enterprises with important employment and structural linkages that offer significant growth prospects.

I.4 Outputs

(a) Diagnostic reports at the enterprise level analysing, inter alia, the financial performance, value of assets, managerial and organization systems, productivity, skill profiles, marketing, input and product mix, technology profile, production and quality control processes, environmental impact and energy consumption;

(b) Rehabilitation proposals covering, inter alia, internal restructuring and modernization programmes, raw material requirements, investment, product development, upgrading of skills and market research;

(c) Feasibility analyses of investment proposals;

(d) Industrial enterprises rehabilitated through comprehensive assistance programmes.

I.5 Activities

(a) Carrying out detailed performance and resource diagnoses of selected industrial enterprises in terms of financial, technological, technical, organizational, marketing and other factors affecting the competitiveness and viability of enterprises;

(b) Designing packages of rehabilitation measures for specific enterprises, including investment projects;

(c) Evaluating the profitability of investments and identifying other resources required for the rehabilitation of enterprises;

(d) Assisting in the improvement of various aspects of enterprise management and plant operation, including market research and marketing, financial control and accounting, and management information systems, as well as engineering, product development, repair and maintenance and quality control.

Subprogramme II: Advisory services at the policy and institutional level in support of industrial rehabilitation

II.1 Problem to be addressed

Declining performance and eventual bankruptcy of some industrial enterprises are inherent features of a dynamic competitive industrial development process in a country. However, this can also be an indication of inadequate economic or industrial policies and other shortcomings in the economic environment or the result of sudden changes in key parameters - such as the abrupt loss of input and output markets, increases in the prices of previously subsidized energy inputs to world market levels - particularly in international markets. Introducing new industrial policy measures, drawing up special structural adjustment programmes at the sectoral and subsectoral levels and building up greater resilience in industry are among the major problems that many developing countries and other countries in transition have to address. An important component in strengthening an economy's restructuring and modernization capacity is the development of domestic consultancy and other key industrial services.

II.2 Objective

To enhance the rehabilitation of industry by conducting diagnostic analyses, as well as policy and institutional support at the subsectoral and sectoral (national) levels.

II.3 Subprogramme focus

Policies, institutional infrastructure, and current production structures at both the subsectoral and sectoral (national) levels that constitute the economic environment and competitive framework for industrial enterprises.

II.4 Outputs

(a) Analytical country reports on the industrial sector's overall competitiveness and policy framework, especially within the context of global trends, identifying subsectors in need of rehabilitation;

(b) Analyses of industrial subsector development prospects and proposals for structural adjustment programmes;

(c) Programmes for building up domestic industrial services for industrial rehabilitation including consultancy and financing;

(d) Guidelines on industrial standardization, quality control, technology development and environmental protection;

(e) Training programmes designed to upgrade skills in industrial services;

(f) Analyses of domestic human resource development capacities for rehabilitation.

II.5 Activities

(a) Based on international experience and information, conducting industrial structure and policy analyses in individual countries, encompassing the infrastructural and institutional framework, industrial competitiveness and performance and identifying critical rehabilitation needs. On that basis, formulating programmes for industrial policy reform and institutional measures in support of industrial rehabilitation and modernization;

(b) Analysing selected industrial subsectors in terms of their prospects and constraints and their specific needs for restructuring and rehabilitation, particularly in the light of threats emerging in the wake of changes in global markets;

(c) Assessing current capabilities of domestic industrial services for rehabilitation, in particular in terms of management and engineering consultancy, financing, market research and information-gathering and evaluations, and elaborating proposals for enhancing such services;

(d) Implementing technical advisory projects in requesting countries to assist in establishing and applying industrial standards, facilities and guidelines for quality control, technology acquisition and environmental protection;

(e) Designing, developing and implementing training programmes in various categories of industrial services;

(f) Assessing domestic capabilities including coverage, specialization and cost-efficiency of human resource development for industrial rehabilitation and modernization on the basis of existing and dynamic comparative advantages.

Subprogramme III: Promotion of direct investment and mobilization of financial resources for training and other key inputs to the industrial rehabilitation and modernization process

III.1 Problem to be addressed

In their efforts to revitalize their industries, many countries seek resources through international cooperation in such areas as foreign direct investment, technology acquisition, management services and skills upgrading. Such resources and the financing of the services required need to be mobilized from both official sources and private entities at the regional and international levels.

III.2 Objective

To enhance international cooperation in the rehabilitation of industrial enterprises in the recipient countries through the promotion of investment, technology transfer and human resource development.

III.3 Subprogramme focus

The focus is on industrial enterprises with identified potential benefiting from international programmes of cooperation in investment promotion, technology transfer and human resource development, and also on the appropriate conduits for channelling financial resources to enterprises being rehabilitated.

III.4 Outputs

(a) Joint ventures, technology agreements, management contracts, market-sharing agreements and other forms of enterprise-to-enterprise cooperation;

(b) Multilateral and bilateral financial support for rehabilitation;

(c) Acquisition of plant and equipment for rehabilitation of industrial enterprises;

(d) Upgraded skills in management, technical production and supervisory functions, industrial design, marketing and other key internal or external enterprise services.

III.5 Activities

(a) Assessing prospects for international enterprise-to-enterprise cooperation and actively promoting and supporting such cooperation for the rehabilitation and/or modernization of industries (inter alia, through the Investment Promotion Services of UNIDO and the Organization's technology promotion activities);

(b) On the basis of specific proposals for rehabilitating industrial enterprises, assisting in the mobilization of international finance in the form of grants or concessional credits;

(c) Advising on and assisting in the procurement and commissioning of plant and equipment for the rehabilitation of industrial enterprises;

(d) On the basis of needs assessments, designing, developing, implementing and/or supporting training programmes at the enterprise level in corporate and financial management, critical functions in plant operation and maintenance, in particular quality control and industrial design, marketing and purchasing, and other aspects relating to the rehabilitation and sustained development of industry.

V. IMPLEMENTATION ARRANGEMENTS

19. Given the range of activities that make up industrial restructuring and enterprise revitalization, the approach adopted by UNIDO in its technical cooperation activities has to be multidisciplinary in nature and implemented via a team approach in order to gain the full benefits of UNIDO's accumulated experience and the in-house expertise available. In addition, the UNIDO programme has to address industrial decision makers at various levels: enterprise, subsector and government policy-making. The direct involvement of national decision makers and the establishment of local services thus become essential dimensions of the rehabilitation programme, as does the interlinkage with the related programmes of other international agencies and financial institutions.

20. To that end, an interdepartmental working group has been established. The working group, which comprises in-house technical cooperation staff active in the focal areas of the UNIDO programme, will coordinate, monitor, adjust and re-conceptualize, as appropriate, the UNIDO rehabilitation programme, particularly in the context of an eventual restructuring of the Organization, to maximize synergies and avoid duplication. The working group will also maintain contacts, to the extent possible, with the programmes of other agencies to develop cooperation and promote collaborative ventures.

21. A major precondition for building up the UNIDO rehabilitation programme is the availability of adequate financial resources through United Nations sources such as the United Nations Development Programme, self-financing trust funds from individual enterprises and other resources - for example, the Industrial Development Fund. Also in that regard it may be possible that international financial institutions, private entities and commercial banks would avail themselves of UNIDO's services.

VI. ACTION REQUIRED OF THE BOARD

22. The Board may wish to recommend to the General Conference for approval the proposed framework for a UNIDO programme on industrial rehabilitation and modernization as outlined in paragraphs 15 to 18 of the present document.